Cognitive Ethical Reasoning of Tax Practitioners: A Preliminary Investigation Using a Tax-Specific Version of the Defining Issues Test (DIT)

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Tax, once the remit of the "general practitioner" accountant and considered an offshoot of accounting, has grown in complexity and importance and has become a distinct and highly specialized profession in itself. Accounting practices of all sizes often have dedicated tax departments to handle tax compliance and tax planning activities. The combination of self-assessment systems, complex tax codes, increased penalties for non-compliance with tax legislation, and higher levels of cross border activity has resulted in an increased reliance on tax practitioners' advice as taxpayers grapple with complying with the tax code in their domestic jurisdiction, as well as in foreign jurisdictions. The impact on worldwide exchequer revenue of non-compliance with tax legislation is considerable. As significant players in the tax compliance game, tax practitioners are in a position to influence the level of tax that their clients pay through their reporting recommendations, making them worthy of focused research.

The accounting profession in general has undergone severe criticism in the aftermath of numerous accounting scandals, and we have witnessed the fall of one of the biggest international accounting practices as a result of the Enron debacle. The KPMG tax shelter fraud case, in particular, proves that the tax profession has not gone untainted in the age of accounting and corporate scandals (Sikka and Hampton, 2005). These high-profile scandals have served to highlight the problems caused by differences in ethical judgement among accountants and tax practitioners, and the issue of ethics has been brought publicly to the forefront of the profession. While many studies in recent years have focused on ethics in accounting, very little work has been done on ethics in tax practice. This is despite the fact that ethical dilemmas involving tax issues were identified by members of the American Institute of Certified Public Accountants as posing the most difficult ethical problem for them (Finn et al., 1988, pp. 607-609).

At the core of the ethical debate is the question of how much a person or company is "obligated" to pay, and what exactly the tax professional should be prepared to do or advise to reduce the tax bill. The debate is not over "to pay or not to pay," but, rather, about the ethical standard to be applied to determine what should be paid. In the context of ethical dilemmas, this could be framed along deontological principles (following an imperative to act inherently ethically) or consequentialist ones (whereby an assessment of overall effects determines an action's ethicality) (Frecknall-Hughes and Moizer, 2004).

Tax practitioners work within a profession which is highly fragmented. In practice, we find tax advice being offered by a broad range of business professionals, including accountants, auditors, lawyers, barristers, former and current members of the Irish revenue authorities, and tax experts working within industry, as well as those officially designated as Registered Tax Consultants as a result of their membership of tax-dedicated professional bodies.[1] The term "tax practitioner" attempts to cover this diverse range of individuals. Some work as sole practitioners or in accounting, legal, or tax specialist partnerships and will provide various types of tax advice to their clients. Tax experts working in industry are more typically employees of a firm (by which we ordinarily mean a company or group of companies) and will identify with and serve only that company's interests as heads or members of an in-house/internal tax department. Usually companies/groups of companies will be of considerable size before an internal department of this nature is warranted.

This fragmentation of the tax profession means that some professionals operating within it are subject to government regulation relating to aspects of their work other than tax (such as external auditors, solicitors, and barristers), some are subject to the independent regulation of their own professional institutes (members of the various accountancy and taxation bodies), and others may not be subject to regulation of any sort. Fragmented professional regulation may give rise to ethical dilemmas when tax practitioners comply with differing levels of ethical standards as dictated by a range of professional bodies—or, indeed, none at all. In Ireland, and elsewhere such as in the UK, anyone can set up in business as a tax adviser. It is very much a case of "caveat emptor," which further complicates any attempt at establishing a common ethical standard for the profession.

Ethical reasoning is one of the components necessary for ethical behavior, according to the four component model of ethical behavior outlined

[1] Tax experts working in industry may, of course, originate from any of the aforementioned groups, or those mentioned subsequently.

by Rest (1983). Given that ethical reasoning ability enables individuals to determine how they will behave when faced with an ethical dilemma, it is vitally important to the tax profession, the tax administration, the policy-makers, and the educators that we learn all we can about the ethical reasoning ability of tax practitioners and how this may impact on their ethical judgements.

The aim of this study is to examine the ethical reasoning of tax practitioners across the profession using a tax-context specific adaptation of a well-known and validated psychometric instrument, the Defining Issues Test (DIT). The study uses a 2 × 2 full factorial design comparing ethical reasoning in the social and tax contexts across tax practitioners and lay people. The comparisons in such a design allow us to unpick the context in which dilemmas originate from the potential for the profession to be attractive to people for whom a particular level of moral reasoning predominates, and from the training/socialization of professionals in the area. Although the study collected a wide range of demographic information about the participants, allowing for a later detailed analysis of the impact of demographic factors, the initial analysis presented here focuses on these issues.

The remainder of this paper is set out as follows. It reviews the literature on tax practitioners and ethics. It briefly examines the concept of cognitive moral or ethical reasoning, outlines Kohlberg's stage sequence theory, introduces Rest's DIT, and examines the applicability of this type of research to tax practitioners. It describes the research method and sets out the research propositions. It sets out and analyzes the findings from a survey carried out on tax practitioners and non-tax specialists in Ireland, and then concludes.

Ethics and Tax Practitioners: Review of the Literature

Prior literature on tax practitioners falls into two main categories—that dealing with endogenous variables which impact on the tax-reporting recommendations that tax practitioners make to their clients, and that identifying exogenous variables. The common context for this type of research is that of tax practitioner aggressiveness—that is, the extent to which a tax practitioner may be willing to stretch the law, in breach of its spirit if not its letter, in devising complex schemes to benefit clients, "taking on" a Revenue authority, etc.—and the factors which might influence this. In more recent years, this type of activity has more explicitly attracted the label of ethics/morality, rather than aggressiveness (see Frecknall-Hughes and Moizer, 2004; Frecknall-Hughes, 2007).

Endogenous variables examined in the literature include:

- Years of experience (Kaplan et al., 1988; McGill, 1988; Ayres et al., 1989; Duncan, LaRue, and Reckers, 1989; Helleloid, 1989; Roberts and Cargile, 1993; Cuccia, 1994; Carnes et al., 1996a).
- Task experience (Duncan et al., 1989; Bonner and Lewis, 1990).
- Job title/position in the firm (Chow, Shields, and Whittenburg, 1989).
- Professional status (Ayres et al., 1989; Cuccia 1994).
- Age (Duncan et al., 1989).
- Gender (McGill, 1988; Ayres et al., 1989; Sanders and Wyndelts, 1989; Roberts and Cargile, 1993; Cuccia, 1994).
- Tax practitioners' risk preference and inherent aggressiveness (Milliron, 1988; Milliron and Toy, 1988; Carnes et al., 1996a).

These studies relate mostly to research undertaken in the U.S. and predate the greater awareness of ethical issues following the Enron and KPMG scandals. Significantly, however, each also tends to examine only a few variables using different instruments/methods and includes issues of education and socialization implicitly rather than explicitly.

However, while ethics have been identified as a significant variable influencing tax practitioners (Milliron, 1988), and some studies have identified the particular ethical issues they face (see, in particular, Marshall, Armstrong, and Smith, 1998 in Australia; and Yetmar, Cooper, and Frank, 1998 in the United States), to date, little work has been done to investigate the manner in which tax practitioners approach ethical dilemmas.

Very many studies (LaRue and Reckers, 1989; Duncan et al., 1989; Reckers, Sanders, and Wyndelts, 1991; Pei, Reckers, and Wyndelts, 1992; Newberry, Reckers, and Wyndelts, 1993; Bandy, Betancourt, and Kelliher, 1994; Schisler, 1994; Burns and Kiecker, 1995; Carnes et al., 1996a, 1996b; Cruz, Shafer, and Strawser, 2000; and Schmidt, 2001) use hypothetical cases or scenarios put before tax practitioners to discover whether they would give the same advice or recommend the same treatment when presented with the same facts. Often, a key element is to determine which factors affect tax practitioner aggressiveness. A similar study by Kaplan et al. (1988) uses a different approach—that of cognitive theory—to examine tax practitioners' work. This builds on the theories of knowledge and experience building developed in the social cognition literature by, for example, Abelson, 1976;

Gibbins, 1984; and Waller and Felix Jr., 1984. The basic hypotheses, generally supported by their empirical findings, are that:

- Recent outcome information will influence the reporting recommendations of tax practitioners; and
- The amount of tax experience interacts with situational economic variables to influence the reporting recommendations of tax practitioners.

Knowledge will be acquired from:

> "…the classroom, continuing education programs, technical bulletins, or professional journals, etc. Thus, when dealing in unambiguous areas, technical knowledge is of foremost importance, and it need not be related to the longevity of professional service (i.e., experience) or the uniqueness of recent experiences."
>
> Kaplan et al., 1988, p. 429

Where situations are ambiguous, however, Kaplan et al. (1988) find that the tax practitioner must take into account not only the technical knowledge required, but also the factual situation of the taxpayer, and the broader environment of the taxpayer and the tax system. In other words, he or she will utilize knowledge gained through experience of the institutional characteristics of the tax system and a learned approach of how to interact with representatives from the tax authority. Some of the knowledge may come from the classroom, but the preponderance will derive from varied, professional day-to-day experience, including dealings with the tax authority (Kaplan et al., 1988, p. 429).

The tax practitioner will develop "theories about the way things work" (Waller and Felix Jr., 1984, cited by Kaplan et al., 1988, p. 429), which will help form the professional's cognitive judgment processes. These may take many years to develop. The input of experience into the decision processes of tax practitioners is not often examined, though LaRue and Reckers (1989, p. 48) find that "experience also may be a vital consideration in research among tax professionals." Pei et al. (1992) comment that experience affects the way tax professionals deal with tax authorities: the more experienced are capable of understanding an authority's requirements and will be inclined to present information in a manner more likely to generate fewer queries than the less experienced, who might be prone to consider client preference above all else.

In addition to the endogenous variables above, we can identify some of the factors that make the tax environment particularly problematic from an ethical perspective. These relate to the business-specific environment in which the tax practitioner operates, and sometimes overlap a little.

Exogenous variables identified include:

- Client payment status and fee pressure (Duncan et al., 1989; Sanders and Wyndelts, 1989; Schisler, 1994).
- Client tax aggressiveness (Roark, 1985; Kaplan et al., 1988; Milliron, 1988; Duncan et al., 1989; Helleloid, 1989).
- The importance of the client and competition to retain or attract clients (Lewis, 1985; McGill, 1988; Reckers et al., 1991; Bandy et al., 1994; Yetmar et al., 1998).
- Tax practitioner penalties (Jackson and Milliron, 1986; Reckers et al., 1991).
- Taxing authority audit probabilities (Kaplan et al., 1988; Duncan et al., 1989; Hite and McGill, 1992; Cruz et al., 2000).
- Exposure to tax authority rules and regulations in the working environment (Kaplan et al., 1988; Duncan et al., 1989).
- The degree of ambiguity of the tax issue and tax law (McGill, 1988; Milliron, 1988; Beck and Jung, 1989; Klepper and Nagin, 1989a, 1989b; Scotchmer, 1989; Brody and Masselli, 1996; Carnes et al., 1996a; Hume, Larkins, and Iyer, 1999).
- Multiplicity of stakeholders—not only clients, but the Revenue authority, fellow professionals in the same firm in different departments, professional bodies, etc. For an internal tax department in, say, a multinational, these would include shareholders, employees, customers, suppliers, regulatory authorities (including the Revenue authority), trade unions, etc. Stakeholders will have expectations which may be incompatible and impossible to satisfy simultaneously.
- Pressures of running a professional practice as a business, including managing junior staff, varied client portfolios, etc. (Lewis, 1985; Yetmar et al., 1998), and stress associated with dealing with large sums of money, allocating scarce or competing resources to deal with client needs (Weick, 1983; Yetmar and Eastman, 2000).

- Public expectation of a high level of technical competence commensurate with the privilege of self-regulation (Yetmar et al., 1998).

The situation in which tax practitioners find themselves is well expressed by Dox (1992, p. 71):

> "Today's tax practitioner must be an agile tightrope walker, able to balance a host of divergent demands. Maintaining one's equilibrium is indeed difficult as a clamor of voices shout conflicting commands…In light of this obstacle-laden course, contemporary tax practitioners are bound to encounter ethical dilemmas as they attempt to cross this often obscure pathway''.

In research which examines the ethical reasoning process of tax practitioners, therefore, it is necessary to use a research instrument/method capable of assessing the interaction between and impact of the endogenous variables relating to the individual practitioner and the business-specific exogenous variables relating to the environment in which he or she operates. The DIT, derived from moral psychology research, provides such a research instrument, as is discussed in the next section.

Cognitive Ethical Reasoning and the Defining Issues Test (DIT)

Cognitive developmental psychologists believe that, before an individual reaches a decision about how and whether to behave ethically in a specific situation, ethical or moral reasoning takes place at a cognitive level.[2] The psychology of moral reasoning aims to understand how people think about moral dilemmas and the processes they use in approaching them. It is concerned with the state of mind of the decision maker, how he or she defines the ethical dilemma being faced, and the concepts of fairness that the decision maker applies to the decision (Kohlberg, 1973; Rest, 1979b). The processes used by individuals to reason ethically alter over time, and there

[2] Ponemon and Gabhart (1990) issue an important warning, which it might be timely to note at this point. They stress that, in the area of cognitive moral psychology, it is crucial to differentiate the meaning of "moral" and "ethical" from the traditional dictionary definition as representative of ideal behavior in a philosophical sense. In the context of cognitive moral psychology, morality is concerned with how individuals cooperate and coordinate their activities in the service of furthering human welfare, and how they adjudicate conflicts among individual interests (Rest, 1986a, p. 3). The terms "morality" and "ethics" are used interchangeably in the literature on the psychology of moral reasoning (Rest, 1994), and we will follow this practice throughout this paper. Various authors have proposed distinctions, but there does not seem to be one, generally accepted distinction.

is empirical evidence to support the contention that moral reasoning ability develops sequentially (Kohlberg, 1973; Rest, 1979a).

Kohlberg's Stage Sequence Theory

Kohlberg (1969) developed a model of ethical cognition based on interview studies in which participants responded in an open-ended way to ethical dilemmas. His stage sequence theory is based on concepts of social cooperation and justice. It sets out three developmental levels. Individuals move upward through these three levels, beginning at the "pre-conventional morality" level, onwards to the "conventional morality" level, sometimes reaching the final and highest level known as "post-conventional morality." Within each of the three levels there are two developmental steps, resulting in a total of six stages. The second stage in each level is a more advanced and organized form of the first. Each stage in Kohlberg's model is considered as qualitatively higher, both cognitively and ethically. These six stages of ethical development determine the level of ethical reasoning used by individuals in distinguishing right from wrong actions. The ethical reasoning level of individuals, therefore, helps to determine how they will behave when faced with an ethical dilemma.

Rest's DIT

Rest developed the DIT in 1979 (Rest, 1979a) using Kohlberg's cognitive development theory as a basis. The DIT is a self-administered, multiple-choice questionnaire, making use of the same ethical dilemmas used by Kohlberg in his original analysis (for example, "Heinz and the Drug," see Appendix A). Rest (1979b) developed the items for the questionnaire based on an interpretation of the stages in Kohlberg's stage sequence theory (see Table 1).

Although Kohlberg contended that, at any point in time, an individual would be at one of the six levels of ethical development, Rest posits that, while one stage might dominate an individual's reasoning, he or she is never simply at one stage of cognition. Rest, therefore, views ethical development as a shifting distribution of responses from lower levels on the stage sequence to higher levels. As an example, an individual may reason predominantly at stage four but also utilize some stage three and five reasoning. As ethical development takes place, he or she will reduce his or her reliance on stage three reasoning and increase reliance on stage five. The DIT, therefore, assumes that a person can operate at many stages at once,

Table 1: Six stages of moral reasoning*

Pre-conventional: Focuses on the individual.	Stage one	The morality of obedience: do what you are told.
	Stage two	The morality of instrumental egoism and simple exchange: let's make a deal.
Conventional: Focuses on the group and relationships.	Stage three	The morality of interpersonal concordance: be considerate, nice and kind: you'll make friends.
	Stage four	The morality of law and duty to the social order: everyone in society is obligated to and protected by the law.
Post-conventional: Focuses on the inner self and personally held principles.	Stage five	The morality of consensus-building procedures: you are obligated by the arrangements that are agreed to by due process procedures.
	Stage six	The morality of non-arbitrary social cooperation: morality is defined by how rational and impartial people would ideally organise cooperation.

*Adapted from Rest (1994).

and, rather than attempting to assess the stage to which a person "belongs," it instead measures the comprehension and preference for the principled level of reasoning (i.e., reasoning at stages five and six) (Rest, Bebeau, and Thoma, 1999).

Participants taking the DIT are presented with either six (long-form DIT) or three (short-form DIT) ethical dilemmas stated in third person form.[3] The dilemmas are presented as narratives describing the circumstances of the third party who is faced with making a decision on how to act in the scenario. After reviewing the dilemmas, participants choose what the actor should do in the circumstances from three options offered: take the action, do not take the action, or "cannot decide." They are then asked to rate the importance of 12 considerations relating to the particular dilemma, indicating how important each is (in his or her opinion) in making the decision described in the scenario, using a five-level scale (great importance, much importance, some, little, or no importance). The 12 statements were constructed by Rest to include considerations that would be prevalent at particular stages of ethical judgment development in each situation. Once the 12 items have been rated, the participant is asked to select the four items that he or she considers to be of most importance to the decision and to rank

[3] The complete version of the DIT comprises six dilemmas. These are: (i) Heinz and the Drug: examines whether Heinz should steal a drug that might save the life of his wife who is dying from cancer; (ii) Student Take-Over: examines university students' freedom of speech and their right to protest; (iii) Escaped Prisoner: examines whether a man should pay for a past crime after living eight years of a virtuous existence that contributed to the well-being of the local community; (iv) The Doctor's Dilemma: examines the issue of euthanasia; (v) Webster: examines discrimination against minorities; and (vi) Newspaper: examines freedom of speech as it relates to the press. The short version of the DIT contains only three of these dilemmas (Heinz, Prisoner, and Newspaper stories).

these in order of importance. The first of the DIT scenarios, "Heinz and the Drug," is set out in Appendix A as an example.

In scoring the DIT, points are allocated to the considerations chosen as the four most important in each scenario. Four points are given for the most important through to one point for the least important. These points are assigned to the stage of ethical reasoning which that consideration represents, thus producing a distribution of responses by level which provide an overview of the range of stages involved in that participant's ethical reasoning. The points corresponding to the highest modes of ethical reasoning (stages five and six) are used to construct a single measure known as the "P" score (standing for "principled moral thinking") for each participant (Rest, 1994). The P score measures the percentage of stages five and six responses made by an individual for the entire three or six cases. Results of the P scores are expressed as a continuum from 0 to 95 (it cannot reach 100 owing to the fact that, on three stories, there is no fourth possible principled item from which to choose). Since the Rest (1979b) model is developmental and sequential, a higher P score implies a lower percentage of reasoning at lower levels. Thus, the P score measures the percentage of a participant's thinking at a principled level.

Based on hundreds of studies carried out in the United States, Rest and Narvaez (1998) report that junior high students generally average P scores in the 20s, senior high students in the 30s, college students in the 40s, graduate students in the 50s, and moral philosophers in the 60s. More specifically, Rest (1990a, p. ii) reports the following group averages, as shown in Table 2.

Table 2: Group Averages for P scores*

DIT P score	Group
65.2	Moral philosophy and political science doctoral students
59.8	Seminarians in a liberal Protestant seminary
52.2	Advanced law students
49.5	Practicing medical physicians
42.3	Average college student
40.0	Average of adults in general
31.8	Average senior high student
21.9	Average junior high student
18.9	Institutionalized delinquent boys, 16-years-old

From Rest (1990, p. ii).

It is hard to say whether such averages would be obtained today, as anecdotal evidence suggests that moral standards, especially in financial/business areas, have declined.

The Application of the DIT to Tax Practitioners

The DIT has been used in numerous studies to investigate the impact of different variables on the ethical reasoning of accountants, such as age (Ponemon and Gabhart, 1993; Etherington and Hill, 1998); gender (Jones and Hiltebeitel, 1995; Eynon, Hill, and Stevens, 1997; Etherington and Hill, 1998); ethical intervention, that is, undertaking ethics courses in college (St. Pierre, Nelson, and Gabbin, 1990; Hiltebeitel and Jones, 1992; Armstrong, 1993; Ponemon and Gabhart, 1993; Shaub, 1994; Bay and Greenberg, 2001); and locus of control (Tsui and Gul, 1996).

Many empirical studies using the DIT suggest a deficiency in the development of the moral reasoning abilities of accounting students and accountants, given their age and education (Armstrong, 1987; Ponemon, 1990, 1992; Arnold and Ponemon, 1991; Lampe and Finn, 1992; Shaub, 1994; Sweeney, 1995; Fisher and Ott, 1996; Bernardi and Arnold, 1997). Ponemon (1992) studied 180 members of the American Institute of Certified Public Accountants (CPAs) and found an average score of 38.1, which is lower than the P scores of adults in general (which Rest 1990a, reports as being 40). Etherington and Hill (1998) report an average P score of 39.3 for 468 randomly sampled certified management accountants in America. Ponemon and Gabhart (1993) and Shaub (1994) find P scores of 40.0 (n = 133) and 41.3 (n = 207) for auditors at, what were at the time, Big Six firms, which are more comparable with the average reported P score for adults in general but are still lower than the average reported P scores for college students (Eynon et al., 1997).

Tax falls within the business domain and interacts significantly with accounting. Tax practitioners are often qualified accountants and may carry out both accounting and tax work. However, it has been recognized that one of the deficiencies of ethics research in accounting has been the failure to separate the accounting profession into major functional areas when analyzing ethical issues (Marshall et al., 1998). Four separate and distinct functions within the broader profession were identified by Schweikart (1992, cited by Marshall et al., 1998). The four divisions are: (1) external reporting and auditing (financial accounting); (2) selection of information for presentation and use of the information for internal business decisions (management accounting); (3) insolvency and reconstructions; and (4) taxation. It is vitally important to realize that each of these areas may be served by different types of accountants with their own distinctive ethical dilemmas (Marshall et al., 1998). Marshall et al. (1998) observe that, in the area of taxation, the role of the practitioner ranges from that of an accountant concerned predominantly with the preparation of annual income tax returns to that of a quasi-legal adviser.

Therefore, while ethical reasoning research on accountants in general may inform the study of the ethical reasoning of tax practitioners, it would not be prudent to assume that the findings are generalizable, and research targeted at examining the ethical reasoning of tax practitioners as a unique and distinct group is merited. Indeed, solicitors are often found working as tax practitioners, and it is argued that the literature pertaining to accountants and the DIT cannot be presumed prima facie to be applicable to them.

While Kohlberg's theory on moral reasoning and Rest's DIT have never been used to examine tax practitioners, some work has examined the effect of ethical reasoning on tax evasion intentions of taxpayers.

Kaplan, Newberry, and Reckers (1997, p. 41) found that tax evasion intentions are significantly lower for those taxpayers who utilize high moral reasoning in their decisionmaking. Fisher (1997) also employed the DIT to examine taxpayer reasoning. He designed an adapted DIT using tax dilemmas faced by taxpayers and compared the taxpayers' P scores on Rest's original DIT to taxpayers' T-scores (measuring moral reasoning using the tax-based DIT). Reasoning about taxpaying situations was found to be less advanced than reasoning about broader social dilemmas.

The importance of tax practitioners as a tax compliance variable has been highlighted above in the first part of this paper. The employment of the DIT as a research tool for examining the ethical reasoning of taxpayers making compliance decisions adds weight to the justification for its utilization in the investigation of tax practitioners, who have such a significant influence on taxpayers. This study's assessment of the moral reasoning of tax practitioners, a group who have hitherto failed to be examined in this manner, will therefore make a significant contribution to the development of academic knowledge in this field.

The standard DIT cannot give us the whole picture, however. It can give us an indication of the preferred level of moral reasoning for tax practitioners versus that in the general population, but cannot explore the issues of context and training/socialization discussed in the introduction. To address these issues, our study needed to develop an instrument related to the tax domain, and this is discussed as part of our methodology, to which we now turn.

Research Propositions and Methodology

Development of Research Propositions

As indicated above, the administration of a standard DIT instrument to both groups of participants in this study allows us to test whether practitioners and lay people differ significantly in their responses to social dilemmas. This allows the possibility that tax work attracts people for whom a particular level of moral reasoning predominates to be taken into account in our analysis.

The DIT is "a broad, general measure of moral reasoning" (Fisher, 1997, p. 143), acceptable in dealing with personal issues in a social context (Fraedrich, Thorne, and Ferrell, 1994). However, concern has been expressed that it does not, and cannot, fairly represent the reasoning used when facing ethical dilemmas in a business context (see, for example, Elm and Nichols, 1993; Fraedrich et al., 1994; Trevino, 1986, 1992; Weber, 1990; Welton, Lagrone, and Davis, 1994; Dellaportas, Cooper, and Leung, 2006). These concerns have led to the development, in a number of areas, of instruments based on the DIT, but containing context-specific scenarios, a route we also follow here.[4]

There are several mechanisms by which different behavior in a business versus social context might arise. Jackall (1988) suggests, for example, that what is ethically acceptable at work may not be acceptable at home or outside the corporation, and that findings that managers use lower-level ethical reasoning to resolve business problems is consistent with an understanding of human behavior based on cultural anthropology, where individuals play different roles that allow them to accept different values, norms, and behaviors in different life domains (e.g., home and work). This suggests that socialization at work may affect attitudes to particular issues. Training may also be important, in that legislation is not always clear on how situations should be dealt with, sometimes leaving a range of options (Hume et al., 1999). Awareness of this ambiguity may make it easier for practitioners to decide on the basis of other considerations (such as benefit to someone in

[4] For example, in business-related areas, there are: accounting-specific tests (Welton et al., 1994; Thorne, 2000, 2001); broad business dilemmas and auditing scenarios (Weber, 1991; Massey, 2002); management vignettes (Loviscky, Trevino, and Jacobs, 2007); and a test of tax compliance (Fisher, 1997).

the role of client in the scenario, which would imply a lower level of moral reasoning than considering society as a whole), while an inexperienced person might have to reason from first principles. Finally, characteristics of the tax context may affect individuals regardless of professional involvement (e.g., the anonymity of those who are losers if tax is not paid, perhaps leading to perceptions of victimless crime in this field). Our aim here is to test for these effects.

Evidence from studies investigating the moral reasoning of accountants finds that their ethical reasoning in work-related situations is lower than the reasoning they are capable of in a broader social context (Thorne, 2001). Fisher (1997) also found that the reasoning of taxpayers about taxpaying situations was less advanced than reasoning about broader social dilemmas. This would support a prediction that both practitioners and lay people in the study would follow this pattern owing to the characteristics of the tax context, and show lower levels of moral reasoning in tax scenarios than in the standard social dilemmas of the DIT. However, as tax practitioners receive extensive technical tax training and may also be bound by codes of conduct of a professional body (see earlier), it is also possible that these factors may lead practitioners to show a higher degree of moral reasoning in a professional context than in a broad social context, and that obeying the law would be of special significance.

Finally, we can make some initial investigations into the impact of socialization versus training by comparing practitioners from different contexts. Bernardi and Arnold (1997, p. 659) observe that most of the researchers on the ethical reasoning of accountants base their findings on subjects from only one or two of what are now the Big Four accounting firms, assuming that the results are generalizable across all accounting firms. The authors suggest that differences in moral development could occur as result of a socialization effect. Other reasons for the differences in moral development, cited by Ponemon (1992), include differences in work practices, training programs, or the level of moral development of supervisors. Bernardi & Arnold (1997) conclude that there is a need to include subjects from several firms in research designs, and we concur with this approach.

For the purposes of this study, tax practices were partitioned into five size categories (Big Four accounting firms, international accounting firms—i.e., firms with offices in multiple jurisdictions but not one of the Big 4, multi-office national firms, single office national firms, and sole practitioners), and research participants were sourced from each. Tax practitioners working in industry, in legal firms, and with the Irish Revenue authority were also included in this study.

Research Instrument

Using the DIT as a blueprint, a context-specific test was developed which aims to measure the ethical reasoning ability of tax practitioners in their working environment (Doyle, Frecknall-Hughes, and Summers, 2009), hereafter referred to as the TPDIT. In the TPDIT, the ethical reasoning levels of items for consideration were matched to those of the DIT to facilitate comparisons and reduce the chances of any differences found in the study arising from this effect. Our development work provided a sufficient range of potential considerations to allow this to be done without risking the introduction of contrived items that would not seem realistic, particularly to more experienced participants.

The newly developed three scenario TPDIT was combined with the short-form, three scenario version of the DIT resulting in a new six scenario test containing three social context dilemmas and three tax context dilemmas. In order to combat the issue of order effects, a counter-balanced design was used with one version of the questionnaire having the DIT scenarios first and the other, the tax scenarios. Both versions of the questionnaire included demographic questions at the end. Responses were returned anonymously, with participants also having the option to return a form asking for a copy of a research report based on the study but being assured that any contact details for this would be stored separately from the questionnaire responses.

Dissemination of the Research Instrument

The TPDIT was administered to 649 individuals in Ireland in early 2009 using a combination of random, convenience, and snowball sampling techniques. Controlling for order effects and gathering participant-relevant demographic data resulted in four versions of the TPDIT (TA1, TA2, NS1, and NS2).

The TA versions of the TPDIT were administered to 343 practitioners working in a range of tax related roles in Ireland. The only difference between TA1 and TA2 was the order in which the scenarios were presented to participants (TA1 presented the social context scenarios first, and TA2 presented the tax scenarios first).

The two NS versions of the TPDIT were disseminated to 306 Irish non-tax specialists or "ordinary people" who had no professional involvement in taxation. NS1 presented the DIT scenarios first and NS2, the tax scenarios.

Each of the 649 participants was given an envelope containing (a) a covering letter outlining what the research study was about; (b) a research instrument (TA1, TA2, NS1, or NS2 as appropriate) containing detailed instructions, three social context scenarios and three tax context scenarios with questions following each one, and a final page gathering demographic data; (c) a separate page requesting a copy of the final research report; and (d) a stamped addressed envelope. Completing the research instrument took between 30 minutes and 1 hour.

To date, there has been a 34 percent response rate from tax practitioners (115 completed questionnaires) and a 44 percent response rate from non-tax specialists (136 completed questionnaires). Five of the non-specialist instruments had to be discarded as a result of being incorrectly completed. A further 29 instruments had to discarded owing to the scenario-based questions not being fully completed.

The checks on subject reliability detailed in the DIT manual (Rest, 1986b) resulted in 17 percent of instruments being eliminated (16 percent for practitioners and 18 percent for non-specialists).[5] Rest (1990b, p. 15) indicates that the invalidation of tests on the basis of consistency checks is in the 2 percent-15 percent range. Our findings are consistent with this ($p>0.1$). This gave a sample of 180 instruments for analysis (tax practitioners $n = 80$ and non-specialist $n = 100$).

Profile of Tax Practitioners Participants

The gender analysis of the tax practitioner sample was fairly even, with 45 percent of participants being male and 55 percent female. Participants' ages ranged from 20 years to 66 years, the average being 35. Practitioner participants had a minimum of one year of tax experience, with the maximum being 38 years and the mean 12. The analysis of where the participants worked shows considerable variety and is set out in Table 3.

Participants held a wide variety of positions within their employer entities, ranging from tax trainee to partner. This is set out in Table 4. Of the tax practitioner participants, 78 percent had at least a Bachelor's degree, with many having Master's level academic qualifications (26 percent). The analysis of education level is set out in Table 5.

[5] These rejection rates are not significantly different, chi-squared test ($\chi^2 = 0.190$, df=1, $p>0.1$).

Table 3: Category of Firm

Firm type	Frequency	Percent
Big Four Accounting Firm	32	40
International Accounting Firm	6	7.5
Multioffice Accounting Firm	8	10
Single Office Accounting Firm	3	3.8
Sole Practitioner	2	2.5
Legal Firm	9	11.2
Working in Industry	7	8.8
Working with the Revenue Authority	10	12.5
Working in Education	2	2.5
Missing variable	1	1.2
Total	80	100

Table 4: Position in the Firm/Company

	Frequency	Percent
Trainee	16	20
Senior	4	5
Assistant Manager	6	7.5
Manager	16	20
Senior Manager	8	10
Director	11	13.8
Partner	8	10
Other	10	12.5
Missing	1	1.2
Total	80	100

Profile of Non-specialist Participants

Of the non-tax specialist participants, 40 were male (40 percent), while 60 were female (60 percent). Ages ranged from 20 years to 71 years, the average being 40. Of the non-tax specialist participants, 41 percent worked in the public sector, 36 percent in the private sector, and 23 percent were not currently working (most were either students or retired individuals). The majority of the non-tax specialist group indicated that they had never

Table 5: Highest Level Academic Qualification

	Tax Practitioners	Nonspecialist
No academic qualifications	0%	1%
16+ (Junior Certificate)	1%	2%
18+ (Leaving Certificate)	13%	13%
Diploma	8%	5%
Bachelor's Degree	50%	30%
Master's Degree	26%	36%
Doctorate	1%	10%
Missing variable	1%	3%
Total	100%	100%

had any experience in tax. The experiences of the others were confined to personal tax returns or VAT returns in a work-related context. The majority of this group had at least a primary degree, and many also had Master's level academic qualifications (see Table 5 above).

Results

All analysis has been done using SPSS. This includes all checks for consistency, calculation of P scores, and all statistical analysis. Syntax was specially written by the authors to allow consistency checks and calculation of P scores. As far as we know, SPSS has not been used previously to do this.

P Scores were calculated for both the DIT and TPDIT, being named PSCOREDIT and PSCORETAX, respectively. Prior to this, analysis checks for order effects were conducted. No effects were found (MANOVA on both variables, $p>0.1$ in both cases; MANOVA with a dummy variable identifying tax practitioners, TAXPRACTITIONER, indicated no significant interaction $p>0.1$). Order of scenarios was, therefore, not considered further in the analysis.

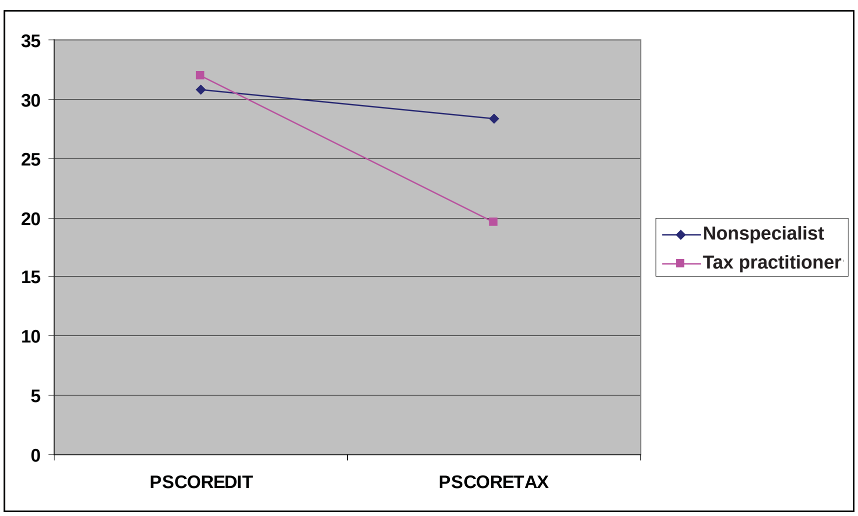
Insights into the main issues were obtained using a GLM repeated measures model with TAXPRACTITIONER as a between-subjects factor, and the results are shown in Table 6. The intuition of our results is clear in Figure 1. CONTEXT, the within-subjects measure reflecting the two P Scores PSCOREDIT and PSCORETAX, is significant ($p<0.01$) as is TAXPRACTITIONER (between-subjects measure, $p<0.05$), and there is a significant interaction ($p<0.01$). The marginal means suggest that PSCOREDIT and PSCORETAX are significantly different, but that this effect is driven by the tax practitioners, giving rise to the significant interaction. Separate GLMs for practitioners and non-specialists confirmed

Table 6: GLM within-subjects results

	Type III Sum of Squares	df	Mean Square	F	Sig.
Within-subjects effects					
CONTEXT	4867.556	1	4867.556	25.525	.000***
CONTEXT * TAXPRACTITIONER	2163.358	1	2163.358	11.344	.001***
Between-subjects effect					
TAXPRACTITIONER	1272.321	1	1272.321	4.578	.034**

Significance levels: ***=.01, **=.05.

Figure 1: Comparisons of PSCOREDIT and PSCORETAX between groups of participants (marginal means)



this, with no significant effect of CONTEXT for non-practitioners ($p>0.1$ for non-practitioners, $p<0.01$ for practitioners). A MANOVA on both scores with TAXPRACTITIONER as a between-subjects effect confirmed that TAXPRACTITIONER is not significant for PSCOREDIT ($p>0.1$ for PSCOREDIT, $p<0.01$ for PSCORETAX).

The results for PSCOREDIT indicate that any impact of tax specialism on moral reasoning is not due to a difference in moral reasoning level as measured in a general social context. Any effects are context-related rather than practitioners being significantly different from non-specialists in a more general sense.

Practitioners showed a significantly lower level of moral reasoning in the tax context than in the general social context, while non-specialists did not, indicating that training/socialization in the work context underlies the difference, rather than arising from something intrinsically perceived as different about tax by anyone.

Checks were made on gender, age, and level of education (university level or not) between groups to ensure that these results did not arise from significant differences on these variables. The test for age was significant so that the mixed model was rerun with age as a covariate. Age itself was not significant, but its presence in the model strengthened the pattern of results described above.

To check the effects of socialization, rather than just knowledge, comparisons were made between respondents from Big Four firms and other practitioners, other than those working for the Revenue authority. These latter were excluded because their socialization is more likely to support a societal view of dilemmas than a client view. This analysis showed that there were no significant differences between these groups of practitioners. More detailed analysis will require larger numbers in some categories, and will be undertaken at a later stage.

Finally, the point made above in relation to those working for the Revenue was investigated further, although the size of this group (10) precluded the sophisticated statistical testing which would be required to resolve the issue. Intriguingly, this investigation indicated that the PSCORETAX for Revenue officials was much nearer to their PSCOREDIT than for non-revenue professionals (33 in PSCOREDIT versus 19 in PSCORETAX for non-revenue practitioners, versus 29 in PSCOREDIT versus 25 in PSCORETAX for Revenue practitioners). If confirmed as a significant difference on a larger sample, this would suggest socialization in the client environment is driving the pattern of results for practitioners.

Discussion and Provisional Conclusions

While a significant amount of analysis remains to be done, the results thus far allow us to offer some provisional thoughts and conclusions. We have a usable response rate in absolute and percentage terms, which is excellent in tax research terms (see Al-Eranyi, Alam, and Akhter, 1990; Borkowski, 1997; Cravens, 1997). There is no effect on our results from the order of different scenarios in the research instruments themselves, and we have a representative gender response.

The initial P scores indicate that, in comparing tax practitioners and non-specialists, it is the tax context where moral reasoning differs. Tax practitioners reveal a significantly lower level of moral reasoning in the tax context than in the general social context, being possibly driven by a regard for legal rules. To confirm this, an analysis of the different response stages is required. These results do not arise from differences in gender, age, or level of education between the groups, nor does the type of firm (Big Four or other) for which practitioners work affect the pattern of results. Although more work remains to be done here, it appears that the tax environment (private practice as opposed to public sector) could reveal some interesting differences.

These results are consistent with Thorne (2001) and Fisher (1997), who also found a significant difference between the P scores of subjects in a broad social context and in a work-related situation. As mentioned above, however, in our study, this difference was not evident in the non-specialist group.

The P scores that have emerged from our preliminary analysis are interesting in themselves. The mean PSCOREDIT for both tax practitioners and non-specialists is quite low at 30.8 and 31.9, respectively. These scores equate with the ethical reasoning level of the average senior high student and are well below the level of adults in general and college students (Rest, 1990). These scores are also much lower than the average P score of accountants found in the studies mentioned above. The low scores of practitioners might be explained by the fact that they may have a predominantly law and order orientation, due to the fact that tax is based on legislation and case law, although, this fails to explain the level found in non-specialists.

In terms of the value of research such as this, there are several areas of potential use.

- Educators can use the information when designing ethics courses for tax practitioners (intervention type programs).

- The tax authority/government can use this information to dictate policy matters in the area of tax preparers. If the law and order approach used by tax practitioners to handle ethical dilemmas, then legislation will result in ethical standards being raised. If tax practitioners use a principled approach, then principle-based guidelines will be enough to influence behavior. This is of particular significance for countries like the U.K., where the issue of principled-based, as opposed to rules-based legislation, is a hotly debated topic.
- The profession itself needs to understand its members' approaches to ethical dilemmas in order to govern effectively. The newly developed TPDIT might be employed to test the ethical reasoning of tax practitioners to assist the profession in raising its ethical standards through education and training. It might also be useful as a recruitment tool.
- Tax practitioners need to be aware of how they reason in order to be responsible for their own ethical development.

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Appendix A

DIT Scenario One: Heinz and the Drug (Rest, 1986a) [6]

(The indication of the stage of moral reasoning represented by each item for consideration below is not present in the instrument used with participants)

In a small European town, a woman was near death from a rare kind of cancer. There was one drug that doctors thought might save her. It was a form of radium that a pharmacist in the same town had recently discovered. The drug was expensive to make, but the pharmacist was charging ten times what the drug cost to make. He paid €200 for the radium and charged €2,000 for a small dose of the drug. The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about €1,000, which is half of what it cost. He told the pharmacist that his wife was dying and asked him to sell it cheaper or let him pay later, but the pharmacist said, "No. I discovered the drug, and I'm going to make money from it". So, Heinz got desperate and began to think about breaking into the man's store to steal the drug for his wife.

Should Heinz steal the drug?

Should steal it ☐ Can't decide ☐ Should not steal it ☐

Rate the following 12 items in terms of importance	Great	Much	Some	Little	No
1. Whether a community's laws are going to be upheld. (Stage 4)					
2. Isn't it only natural for a loving husband to care so much for his wife that he'd steal? (Stage 3)					
3. Is Heinz willing to risk getting shot as a burglar or going to jail for the chance that stealing the drug night help? (Stage 2)					
4. Whether Heinz is a professional wrestler or has considerable influence with professional wrestlers. (M item)					
5. Whether Heinz is stealing for himself or doing this solely to help someone else. (Stage 3)					

[6] The Heinz scenario has been slightly altered from the original Rest (1986a) version in order to update the language slightly for an Irish jurisdiction context. The original dollar figure mentioned in the scenario has been changed to Euros, and the word "druggist" has been replaced by 'pharmacist.'

Rate the following 12 items in terms of importance	Great	Much	Some	Little	No
6. Whether the pharmacist's rights to his invention have to be respected. (Stage 4)					
7. Whether the essence of living is more encompassing than the termination of dying, socially and individually. (M item)					
8. What values are going to be the basis for governing how people act toward each other. (Stage 6)					
9. Whether the pharmacist is going to be allowed to hide behind a worthless law which only protects the rich anyway. (A item)					
10. Whether the law in this case is getting in the way of the most basic claim of any member of society. (Stage 5)					
11. Whether the pharmacist deserves to be robbed for being so greedy and cruel. (Stage 3).					
12. Would stealing in such a case bring about more total good for the whole society or not? (Stage 5)					

From the list of questions above, select the four most important:

Most important item	1 2 3 4 5 6 7 8 9 10 11 12
Second most important item	1 2 3 4 5 6 7 8 9 10 11 12
Third most important item	1 2 3 4 5 6 7 8 9 10 11 12
Fourth most important item	1 2 3 4 5 6 7 8 9 10 11 12

Appendix B

Tax-DIT Scenario One: Capital Allowances

Anne is a tax practitioner with an accounting firm. She is working on a capital allowances claim to benefit one of her firm's corporate clients that is in financial distress. Despite profitable trading, the client has suffered severe cashflow problems as a result of adverse economic conditions. The capital allowances claim relates to a new factory building and will significantly reduce taxable corporate profits (and, thus, the tax the client has to pay). To be eligible for capital allowances, the factory has to be in use at the end of the client's financial year. Without the reduction in tax from the capital allowances, it is unlikely that the company will survive, which will result in 5,000 employees losing their jobs.

It is now a month since the client's financial yearend, and Anne has asked the financial controller for documentary evidence that the factory was in use at the end of the financial year. The financial controller sends her a copy of the minutes of the latest directors' board meeting. The last item on the board minutes notes that the factory premises became fully operational on the last day of the financial year. However, Anne is convinced that this was not the case, as she drives past the factory every evening and it is clearly unoccupied. However, she also knows that the company will not survive if the capital allowances cannot be claimed. Should Anne file a tax return claiming capital allowances for the financial year?

She should ☐ Can't decide ☐ She shouldn't ☐

Rate the following 12 items in terms of importance	**Great**	**Much**	**Some**	**Little**	**No**
1. Would it be fair to all the taxpayers who have met the legal requirements to claim capital allowances if one client is permitted to claim allowances without meeting the criteria?					
2. What impact will the company's demise have on the accounting firm Anne works for?					
3. Under self-assessment, once Anne has the proper documentation on file, her position is covered regardless of whether the building is actually "in use."					

Rate the following 12 items in terms of importance	**Great**	**Much**	**Some**	**Little**	**No**
4. Whether Anne's notification juxtaposes immediate Revenue authority cognizant of the client's actions.					
5. Whether Anne and the financial controller are close friends.					
6. Isn't a tax practitioner required to file an accurate tax return?					
7. Aren't capital allowances the essence of alternative displacement?					
8. Which values best determine how tax practitioners should interact with their clients and engage with the tax legislation?					
9. Whether a tax system that includes random and meaningless definitions ought to be completely abandoned.					
10. Whether the saving of 5,000 jobs will bring about the best result for society as a whole.					
11. Whether the firm's reputation will be damaged if the claim is subsequently challenged.					
12. Whether it is socially acceptable for management inadequacies to deprive employees of their opportunity to earn a living.					

From the list of questions above, select the four most important:

Most important item	1	2	3	4	5	6	7	8	9	10	11	12
Second most important item	1	2	3	4	5	6	7	8	9	10	11	12
Third most important item	1	2	3	4	5	6	7	8	9	10	11	12
Fourth most important item	1	2	3	4	5	6	7	8	9	10	11	12